

Utah Retirement Systems Overview

JUNE 20, 2019

THE OFFICE OF LEGISLATIVE RESEARCH AND GENERAL
COUNSEL

Key Questions

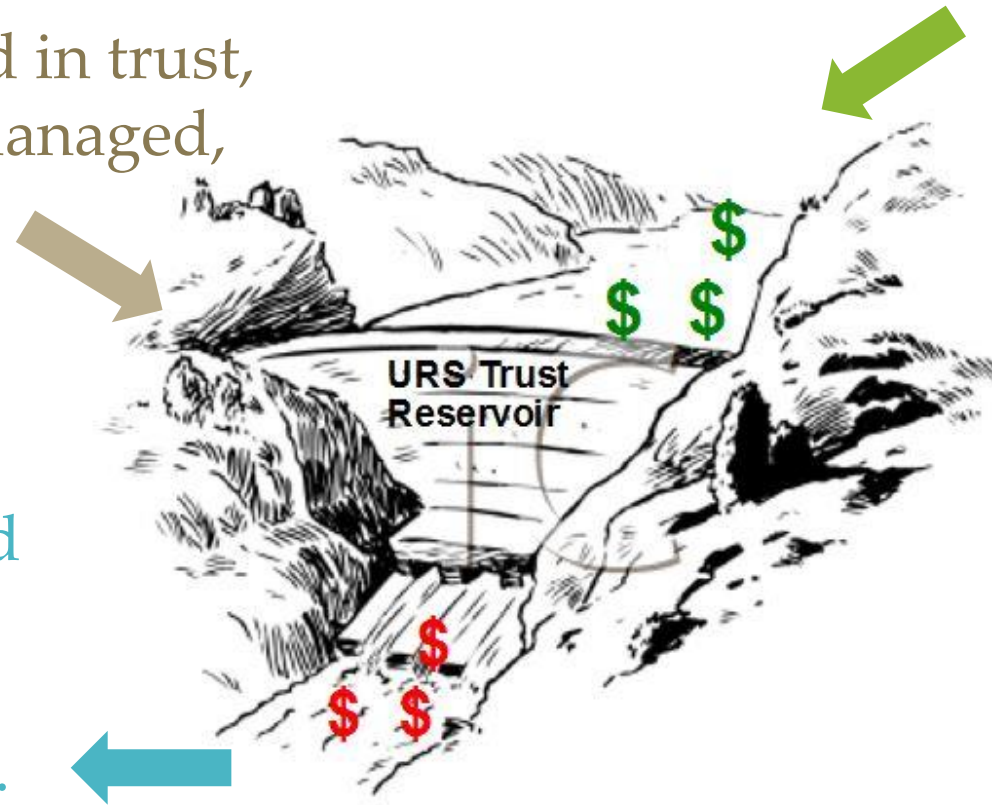
- What is Utah Retirement Systems (URS)?
- What were the 2010 Utah retirement reforms?
- What are the benefits? (*Formulas*)
- When can benefits be taken? (*Eligibility*)
- How is URS funded? (*Revenues*)
- What is the funding status of the retirement systems? (*Funded Ratio*)
- What contributions are needed? (*Contribution Rates*)

Utah Retirement Systems

Like a Reservoir of Shared Funds for Members...

1. Funds are held in trust, professionally managed, and invested.

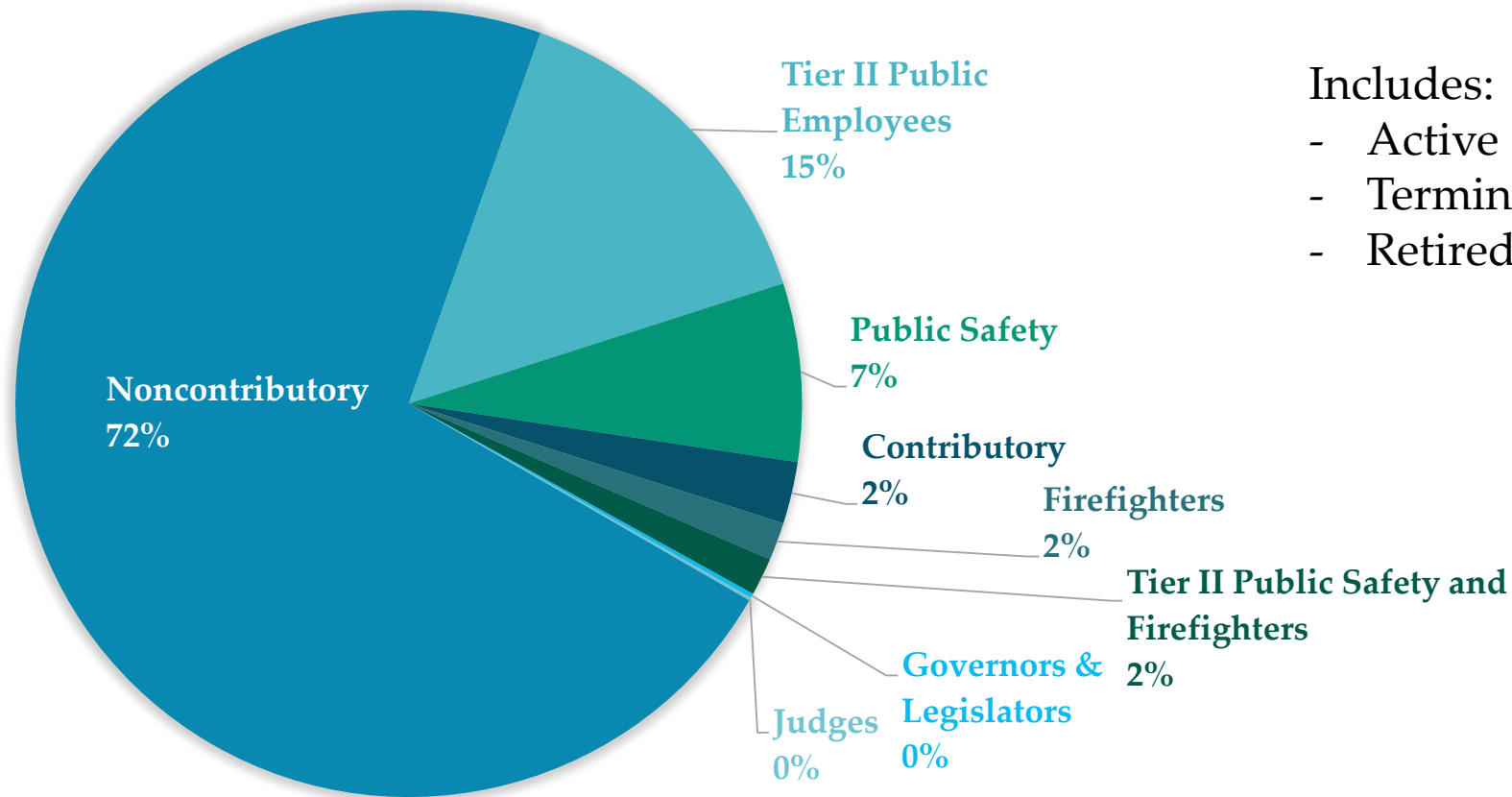
3. Funds are paid out monthly by formula, during retirement years.



2. Employer and employee contributions are deposited each pay period during working years; fund investment returns are also added.

URS – Membership in Systems

Total System Membership: 221,141
(12/31/2018)

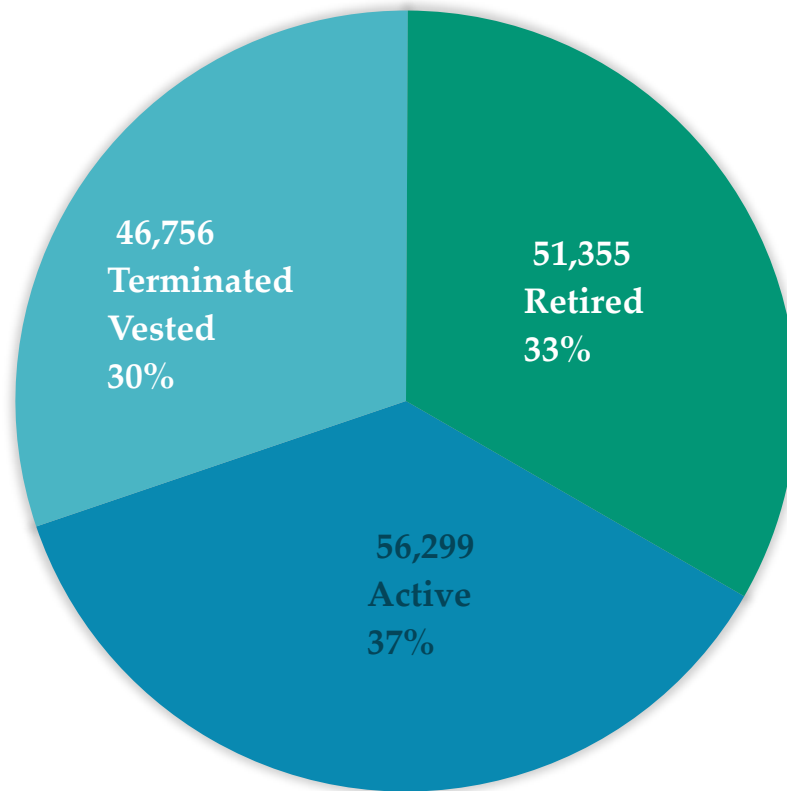


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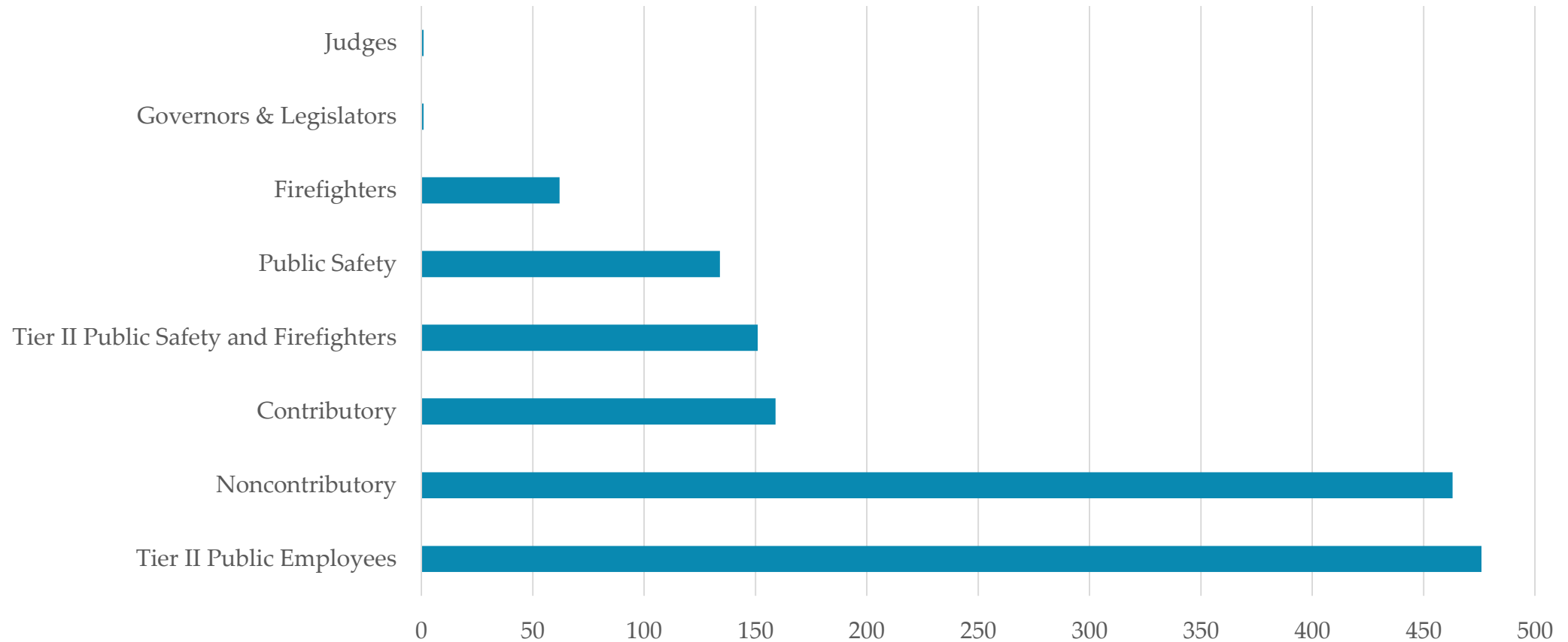
- Active (currently employed);
- Terminated vested; and
- Retired

URS – Membership in Systems

Big System Membership: 159,459
(12/31/2018)

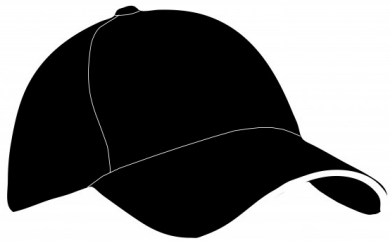


URS – Participating Employers

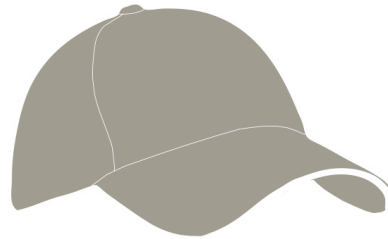


The Utah State Legislature's Role With Retirement Systems

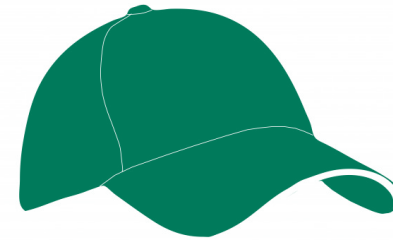
Three Hats



Policymaker for all
Retirement Systems



Employer of state and
school employees



Member of the Governor
and Legislator System or
Tier II Public Employee
Defined Contribution
System

2010 Utah Retirement Reforms – Key Provisions*

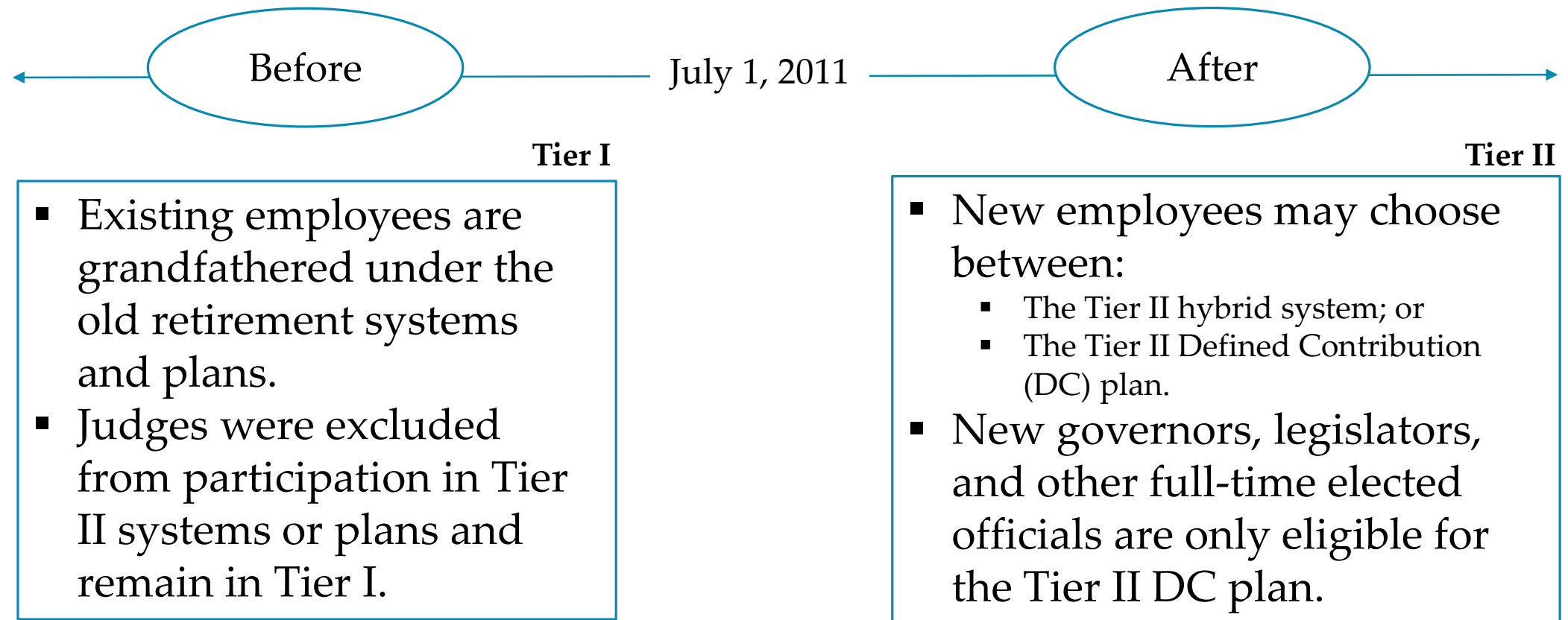
Beginning July 1, 2010, for postemployment restrictions and
July 1, 2011, for new-employee retirement systems

- **Provide stricter postretirement reemployment restrictions**
 - Prohibit collecting a retirement allowance while receiving any employer retirement contribution or earning additional service credit and
 - One-year employment separation requirement after retirement (certain exceptions may apply).
- **No retirement benefit change for existing public employees (Prospective Only)**
- **For new public employees:**
 - Reduced retirement benefits and
 - Provide set employer contribution amounts (10% of salary for public employees and 12% of salary for public safety and firefighter employees, 12% will increase to 14% on July 1, 2020) (a death benefit amount and a Tier I amortization is also added).
- **Use part of the savings to pay unfunded liability for the old retirement systems (Tier I amortization)**

2010 Utah Retirement Reforms – Key Provisions

Tier I or Tier II – based on date of employment

Employees who initially enter regular full-time employment



2010 Utah Retirement Reforms – Key Provisions

Beginning July 1, 2011

Four new Tier II systems were created with set employer contributions*

	Hybrid	Defined Contribution
Public Employees	10%	10%
Public Safety and Firefighters	12% until June 30, 2020 14% beginning on July 1, 2020	12% until June 30, 2020 14% beginning on July 1, 2020

*Contribution rates do not include the death benefit contribution or the Tier I amortization rate.

Sample FY 2020 Employer Contribution Rates:

20.02% for Tier II public employees' hybrid (state and school)

(20.02% = 10% + 0.08% death benefit + 9.94% Tier I amortization)

22.19% for Tier I public employees' noncontributory (state and school)

30.54% for Tier II public safety (state)

(30.54% = 12% + 0.08% death benefit + 18.46% Tier I amortization)

41.35% for Tier I public safety noncontributory (state)

URS – Systems

Participant Systems

Tier I Systems (Six Participant Systems)

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety
- Firefighters
- Judges
- Governors and Legislators

Tier II Systems (Two Participant Systems)

- New Public Employees Tier II Contributory
 - ☐ Hybrid
 - ☐ Defined Contribution (includes Governors and Legislators)
- New Public Safety and Firefighters Tier II Contributory
 - ☐ Hybrid
 - ☐ Defined Contribution(Judges are not included in Tier II)

URS – Tier I Systems

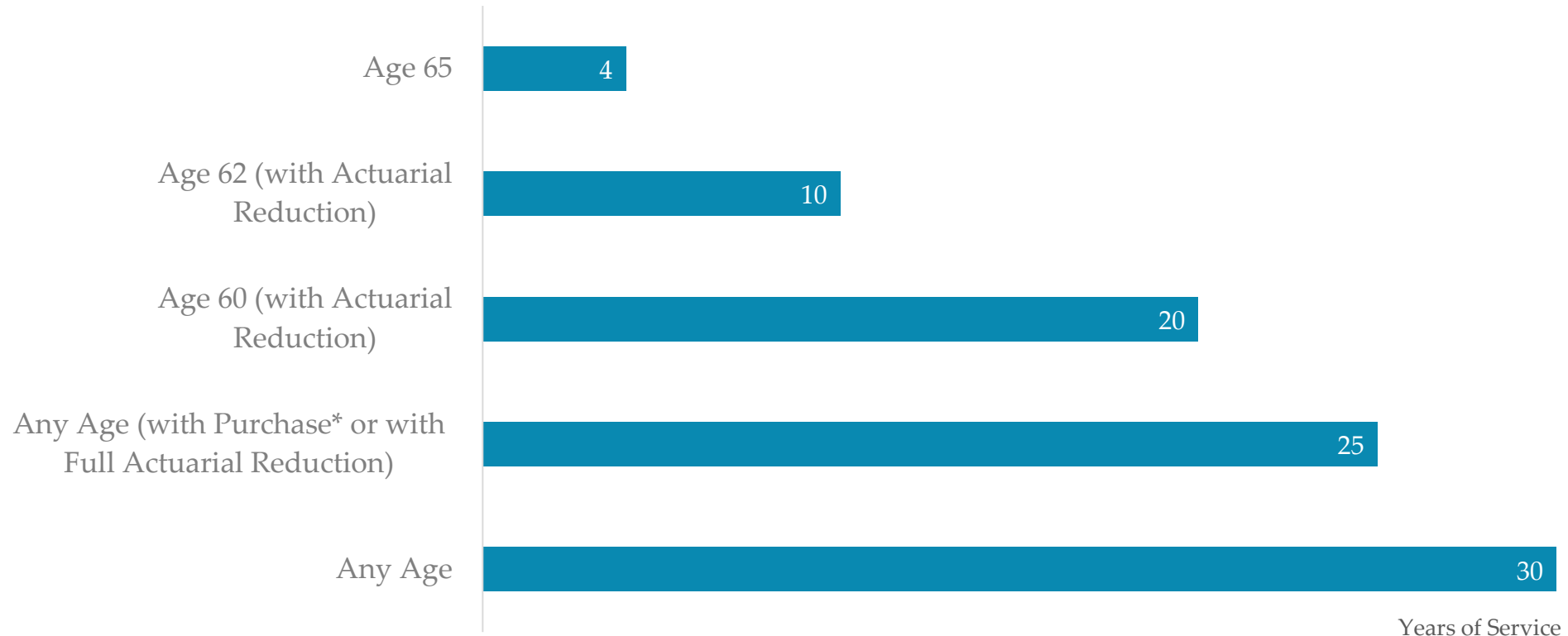
Six Systems With Divisions

- Public Employees Noncontributory
- Public Employees Contributory
- Public Safety (divisions also include a 2.5% or a 4% COLA)
 - Noncontributory – Division A (with Social Security)
 - Noncontributory – Division B (without Social Security)
 - Contributory – Division A (with Social Security)
 - Contributory – Division B (without Social Security)
- Firefighters Contributory
 - Division A (with Social Security)
 - Division B (without Social Security)
- Judges
 - Noncontributory
 - Contributory
- Governors and Legislators

Similar divisions exist for Tier II systems, but only for purposes of calculating the Tier I amortization rate for each existing risk pool

URS – Tier I Eligibility

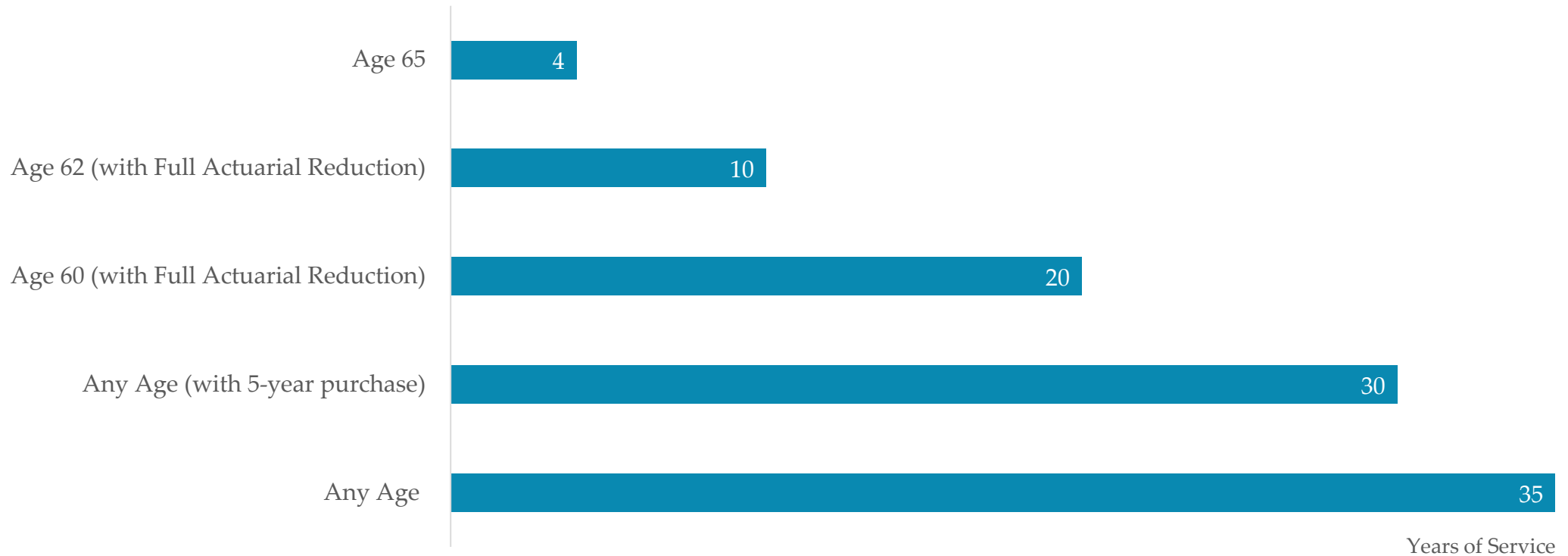
Tier I Public Employees' Noncontributory



*Not available in the Contributory System

URS – Tier II Eligibility

Tier II New Public Employees' Contributory Hybrid



URS – Tier I Benefit Formulas

Defined Benefit – Public Employees Noncontributory Retirement Three Allowance Components

- Years of Service (years of service credit)
- Multiplier (e.g. 2%* per year of service)
- Final Average Salary (average of highest three** years)

*1.5% for Tier II Hybrid

**Five years for Tier II Hybrid

Employees' Tier I Noncontributory Formula

Years of Service × 2% × Final Average Salary (FAS)

FAS = Average of highest 3 years

Example

Years of Service × 2% × Final Average Salary

30	×	2 %	×	Year 1 \$45,779
				Year 2 \$47,684
				+ Year 3 \$49,590
				<hr/>
				= \$143,053
				 \$143,053 ÷ 3 = \$47,684
				 30 × 2% × \$47,684
				= \$28,611

URS – Tier II Allowance Formula

Tier II Public Employees' Contributory Hybrid include:

1. A defined benefit as shown in the formula below; and
2. A defined contribution from the employer into a 401(k), if less than 10% of salary is needed to fund the defined benefit (for FY '20 the 401(k) DC is 1.03%)

Defined Benefit Formula:

Years of Service × 1.5% × Final Average Salary (FAS)

FAS = Average of highest 5 years

Years of Service × 1.5% × Final Average Salary (FAS)

FAS = Average of highest 5 years

Example

Years of Service × 1.5% × Final Average Salary

35	×	1.5 %	×	Year 1 \$44,869
				Year 2 \$45,779
				Year 3 \$47,684
				Year 4 \$49,590
				+ Year 5 \$50,500
				<hr/>
				= \$238,422
				 \$238,422 ÷ 5 = \$47,684

$$35 \times 1.5\% \times \$47,684 = \$25,034$$

Retirement Definitions

Utah Code Section 49-11-102

- **"Actuarial interest rate"** means the interest rate as recommended by the actuary and adopted by the board upon which the funding of system costs and benefits are computed (*assumed rate of return*)(6.95% for FY 2018).
- **"Amortization rate"** means the board-certified percentage of salary required to amortize the unfunded actuarial accrued liability in accordance with policies established by the board upon the advice of the actuary (e.g., 9.94% for FY 2020 for public employees noncontributory state and school).
- **"Certified contribution rate"** means the board-certified percentage of salary paid to URS (on behalf of an active member) to maintain the system on a financially and actuarially sound basis (e.g. 22.19% for FY 2020 for public employees noncontributory state and school).
- **"Normal cost rate":**
 - (a) means the percentage of salary that is necessary for a retirement system that is fully funded to maintain its fully funded status; and
 - (b) is determined by the actuary based on the assumed rate of return established by the board.
- **"Unfunded actuarial accrued liability" or "UAAL":**
 - is determined by the systems' actuary; and
 - means the excess, if any, of the accrued liability of a retirement system over the actuarial value of its assets (*liability minus assets*)(*\$5.4 billion for all systems as of December 31, 2018*).

Five Key Retirement System Indicators

Funded Ratio = 87.4% (2018) (Recent high 100.8% in 2007) (Recent low 76.5% in 2012)

- Unfunded Liability = \$5.4 Billion (2018)

Contribution Rate Levels = 22.19% of Salary (FY 2020 Public Employees Noncontributory)

Revenue

- Investment Rate of Return = -.22% (2018)
- Assumed Rate of Return = 6.95% (2018)

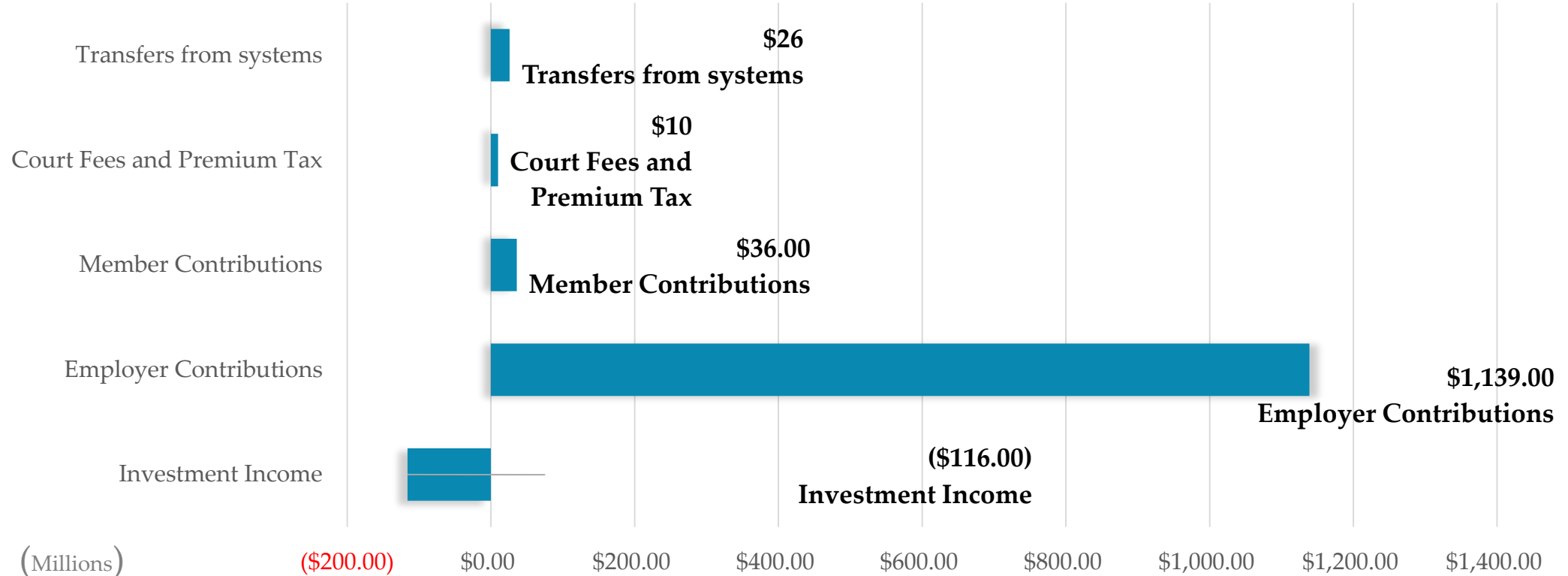
Fiscal Discipline -- Elements

- Fully Fund Recommended Contributions – no contribution holidays
- Avoid Benefit Enhancements – no benefit increases
- Well Managed System – (URS Board, URS Office, Actuary, Legislature)
- Reasonable Administrative Costs

Clear Reporting/Accountability

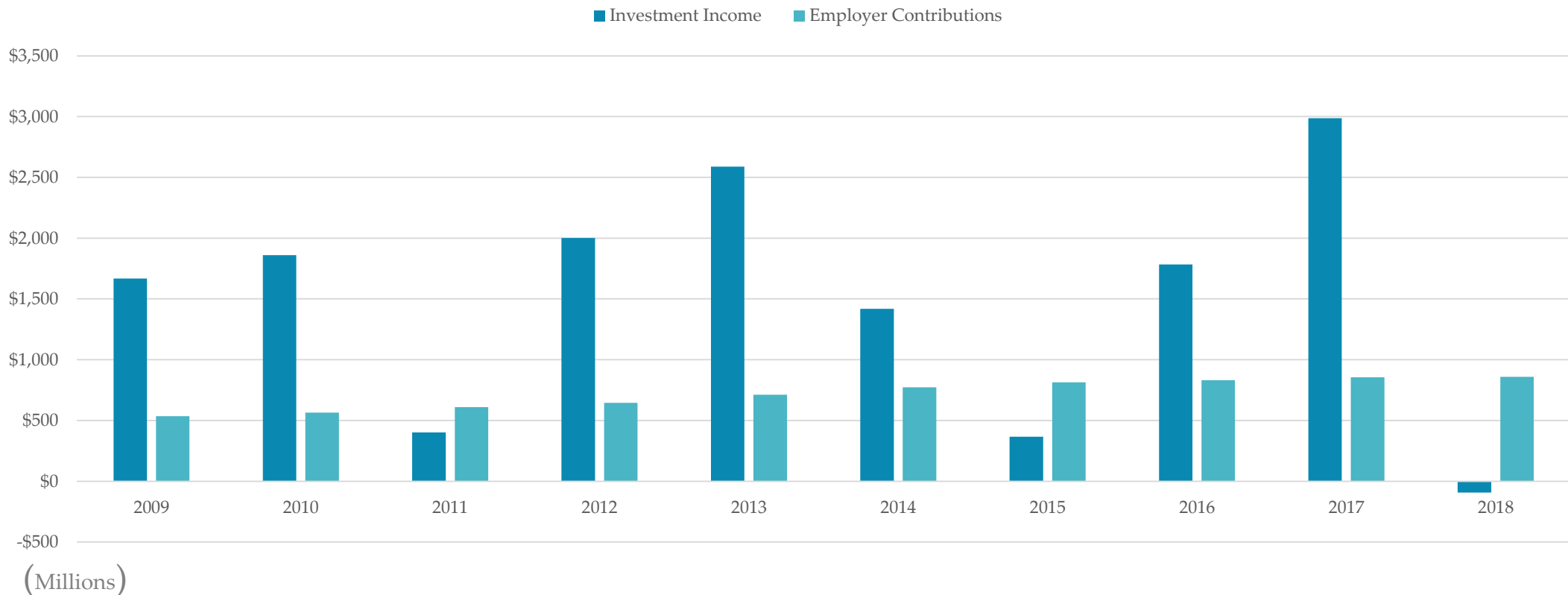
Utah Retirement Systems Revenue Sources

All Systems – Annual Total = \$1,095 Million



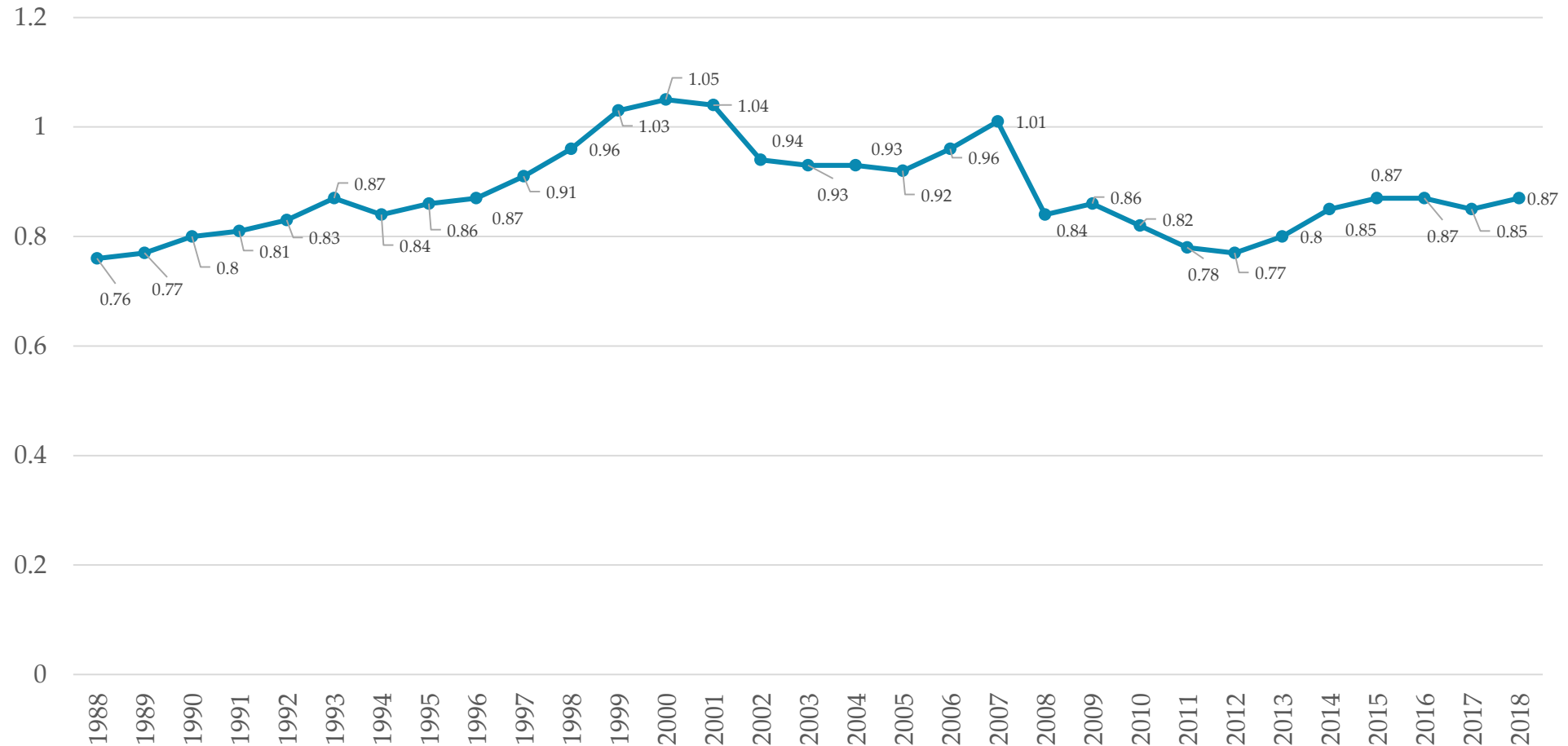
Utah Retirement Systems

Tier I Noncontributory System – 10 Year Revenue Sources



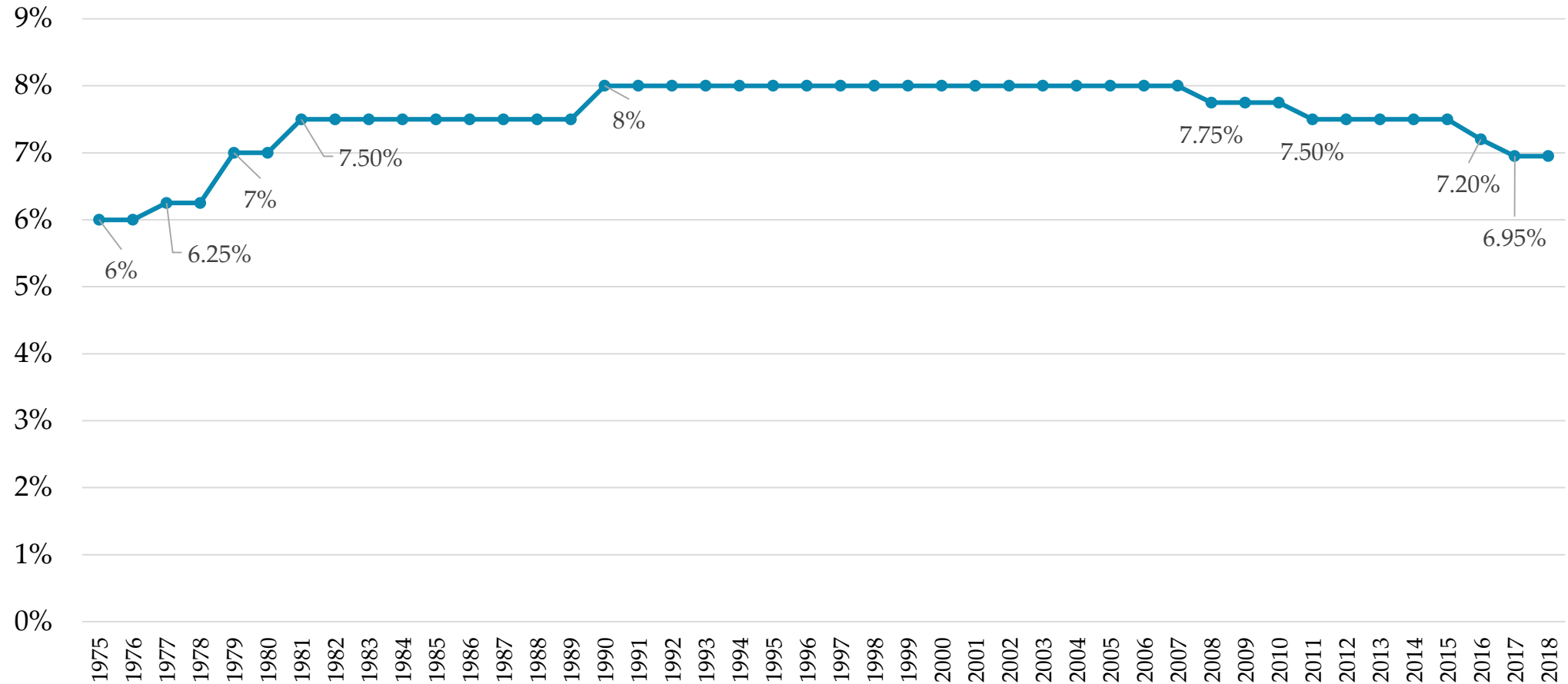
URS – Funded Ratio History

All Systems



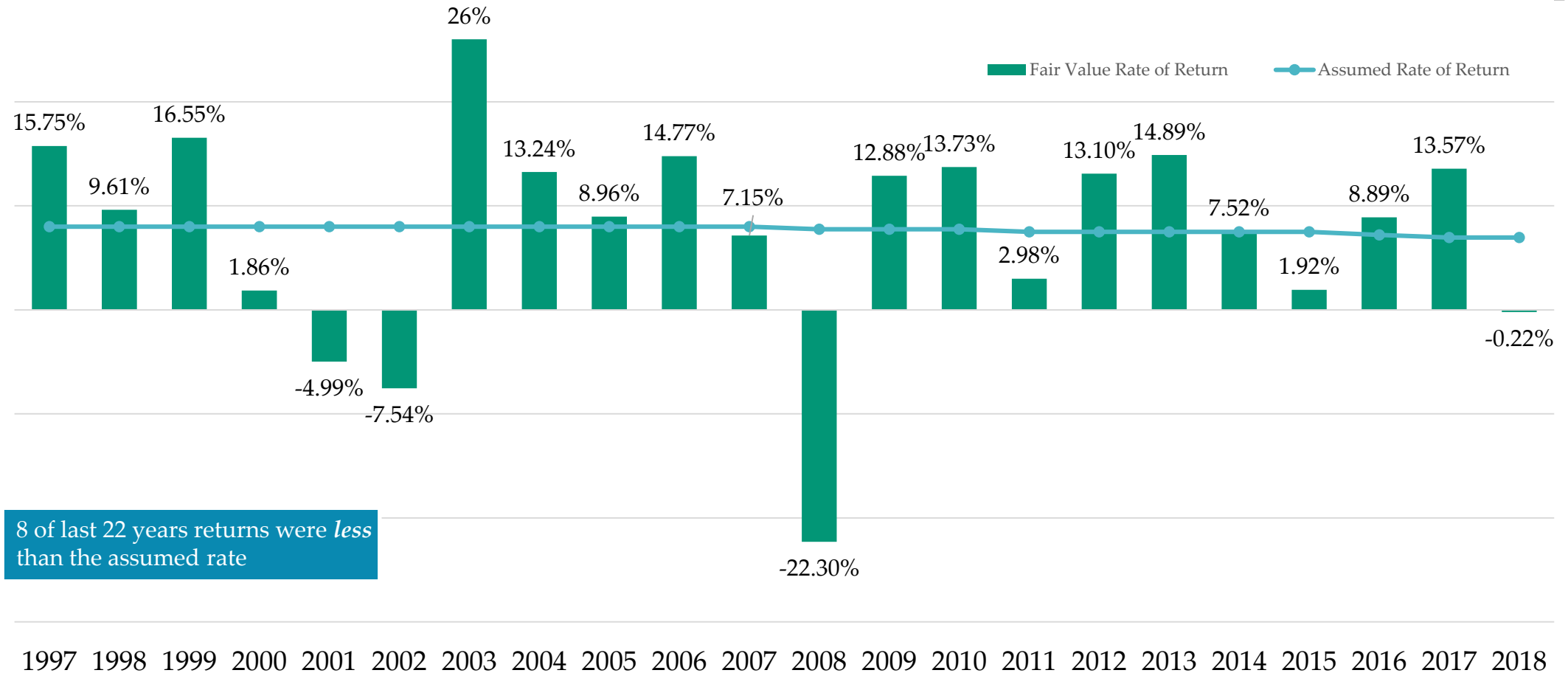
Historic URS Actuarial Interest Rate

Assumed Rate of Return on Investments



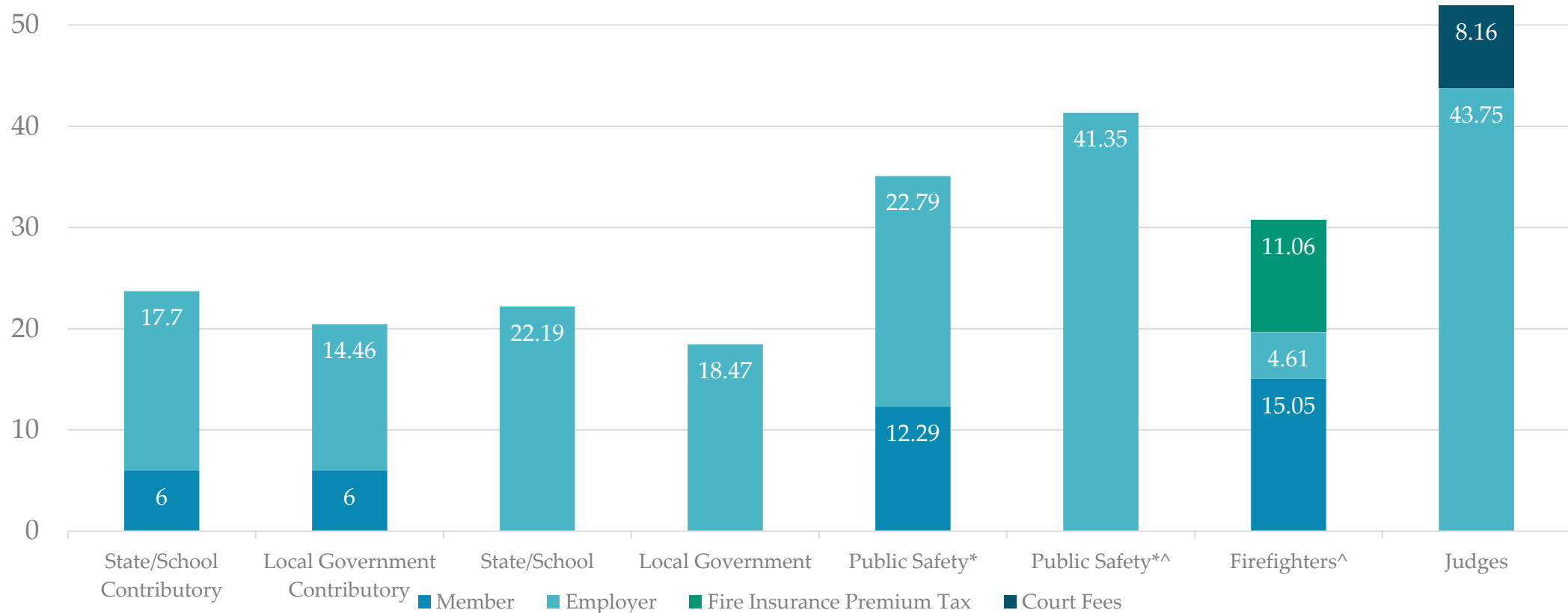
Historic URS Rate of Return on Investments

Rate of Return History – 1997-2018



URS – Tier I Contribution Rates

FY 2020 – Percentage of Salary



*State Employees with 4% COLA ^ State Employees with Social Security (Division A) only

Source: Utah Retirement Systems Final Tier 1 Contribution Rates as a Percentage of Salary and Wages for FY July 1, 2019 – June 30, 2020.

URS – Tier II Contribution Rates*

FY 2020 – Percentage of Salary



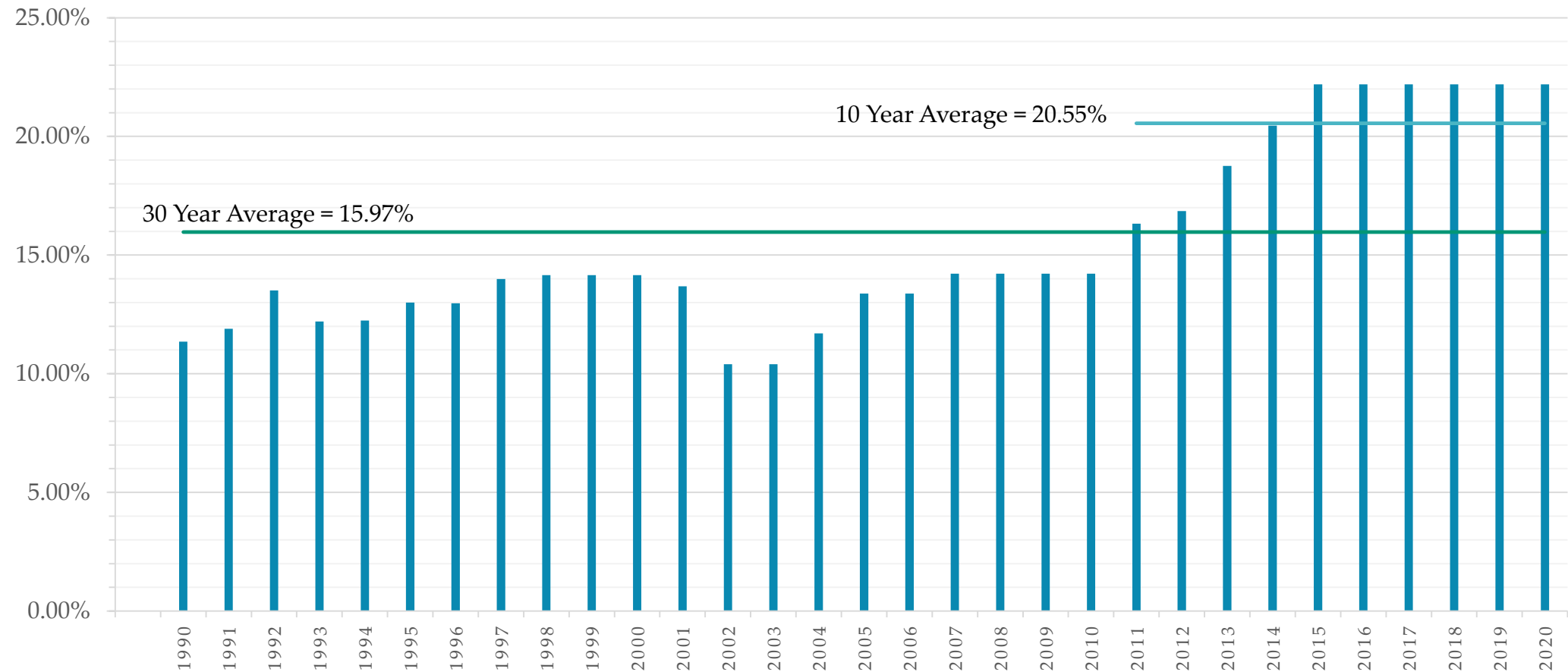
*Death Benefit rate not included (0.08% for public employees and 0.08% for public safety and firefighters)

^Employees with Social security (Division A) with 2.5% COLA

Source: Utah Retirement Systems Final Retirement Contribution Rates for FY July 1, 2019– June 30, 2020.

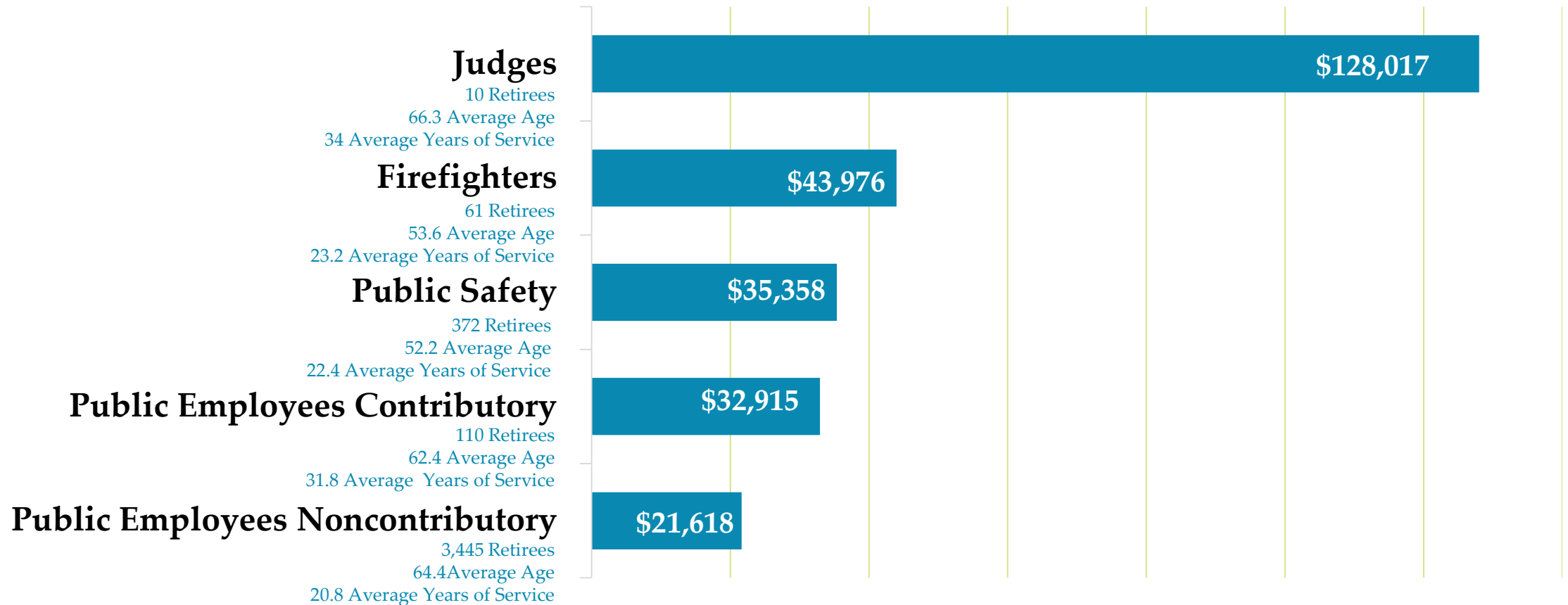
Public Employees' Noncontributory Contribution* Rate History

State and School - Percentage of Salary



Average Annual Benefit (Retirement Allowance)

2018 Retirees



Questions?